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C O N F I D E N T I A L SECTION 01 OF 03 RIYADH 000123

SIPDIS

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TAGS: [PREL](#) [PGOV](#) [ECON](#) [ETRD](#) [CH](#) [KWBG](#) [IR](#) [SA](#)
SUBJECT: CHINESE FM YANG VISITS RIYADH

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[1](#)B. 09 RIYADH 895
[1](#)C. RIYADH 118

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Classified By: Ambassador James B. Smith for
reasons 1.4 (B) and (D)

SUMMARY:

[1](#)1. (C) Chinese Foreign Minister Yang Jiechi met with King Abdullah and FM Prince Saud Al-Faisal on January 13, during the last stop of a five nation Africa and Middle East tour. During the visit, FM Yang discussed deepening Saudi-Chinese ties in a variety of fields, emphasizing trade, in particular, with his Saudi counterparts. Responding to statements made by FM Saud, Yang also briefly discussed Chinese support for Iraq, concern about Iranian nuclear ambitions, and hopes for the Middle East Peace Process. FM Yang's foray into regional political commentary appears to have been a result of FM Saud's prodding, both publicly and behind closed doors, and is a reflection of the developing Saudi-Chinese relationship.
END SUMMARY.

TRADE TAKES PRECEDENCE

[1](#)2. (U) FM Yang arrived in Riyadh on January 13, the first high-level visit since Chinese President Hu Jintao's February 2009 "Trip of Friendship and Cooperation." FM Yang's visit coincided with the 20th anniversary of Saudi-Chinese diplomatic relations, and followed three days after Chinese Trade Minister Chen Deming co-chaired the 4th session of the Saudi-Chinese Joint Commission in Riyadh.

[1](#)3. (U) The Chinese Foreign Minister has traditionally made his first overseas trip of the new year to Africa, visiting with African leaders and expressing Chinese goodwill and improvements in trade relations. This year, FM Yang extended his visit to include not only major trading partners like Nigeria, Kenya and Morocco, but also Saudi Arabia. In a January 13 statement to the press, FM Yang stressed the importance of strengthening cooperation in "energy, infrastructure, finance and science and technology." He said that both sides should carry out cultural and education exchanges to deepen the bilateral relationship and pressed the need for closer relations between China and the GCC.

[1](#)4. (U) These statements echoed similar announcements from Chinese Trade Minister Chen who, in a January 10 press conference, called for finalizing the Chinese-GCC free trade agreement and increasing bilateral trade by 50%, from a total

annual value of \$40 billion to \$60 billion, over the next five years (ref A). During the Joint Commission meeting, Saudi Minister of Finance Ibrahim Al-Assaf reportedly urged the Chinese to participate in more joint ventures, noting that while bilateral trade increased 25 times over the past ten years, the two countries only have 19 joint projects. Al-Assaf also welcomed China's 44 billion riyal (\$11.7 billion) worth of infrastructure projects in the Kingdom.

DUMPING CAUSES A BUMP

15. (C) This call to increase Sino-Saudi trade comes on the heels of a December 24 announcement that China would impose anti-dumping tariffs of up to 13.6 percent on Saudi and Taiwan-produced butanediol. Beijing began a dumping probe on methanol and butanediol (BDO) from Saudi Arabia in July, which caused an unusually public trade spat between the two countries (ref B). Methanol and butanediol make up 10 to 15 percent of Saudi Arabia's \$2 billion in annual non-oil exports to China. A Ministry of Commerce and Industry official told Econoffs on January 13 that Saudi Arabia was able to convince the Chinese not to impose tariffs on methanol, but said the BDO case was still pending. The Ministry recently appointed a new Deputy Minister for Technical Affairs, Dr. Hamad Al-Awfy, who will handle all anti-dumping issues, he said. Al-Awfy previously complained to EconCouns that the SAG was increasingly frustrated by the growing number of Saudi companies complaining about Chinese dumping in Saudi Arabia. Other senior SAG officials have caustically complained about the low quality of Chinese construction and the "short-term, extractive" approach of Chinese companies to investments in Saudi Arabia.

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A MATURING ECONOMIC RELATIONSHIP?

16. (C) China recently surpassed the U.S. as the largest importer of Saudi oil. Saudi Arabia's investments in China have increased significantly over the last few years, including a \$3.5 billion refinery in Fujian and a \$2.86 billion joint-venture petrochemical complex in Tianjin. Additionally, President Hu Jintao commemorated the opening of a cement plant when he visited Saudi Arabia in February 2009. Saudi Arabia's more forward-leaning approach, including large-scale investments in China, indicates a maturing of the bilateral relations and assumes a more pro-active, rather than reactive, role towards economic engagement. (Note: China is now the SAG's number two trade partner after the U.S. Saudi-Chinese bilateral trade was estimated at \$40 billion in 2008, while Saudi-U.S. trade was estimated at \$67 billion during the same time period. End note.)

FM SAUD PRODS, FM YANG RESPONDS

17. (U) While trade issues dominated FM Yang's agenda, both he and FM Prince Saud-Al Faisal commented on the regional political landscape in a press conference that followed their bilateral meeting. FM Saud spoke out against Israeli defiance of UN Security Council resolutions and called on China, as a permanent member of the Security Council, to "deal with world disputes in accordance to international legitimacy...as stipulated in the Arab Peace Initiative." The meetings with FM Yang were "part of a framework of coordination and consultation," FM Saud continued, that included not only the Palestinian cause but also Iran's nuclear file, Iraq and Yemen. In particular, he emphasized China's role as a member of the P5 plus 1 group and their responsibility "to solve the (Iranian nuclear) crisis through dialogue and peaceful means. "Our two nations are keen that

the Middle East and the Gulf should be free of all weapons of mass destruction, including nuclear weapons," he stressed.

¶8. (U) In response to FM Saud's comments, FM Yang said China called for serious negotiations between Israel and Palestine that would carry out the peace process and establish the State of Palestine. "China is ready for cooperation with the world community to work for stability in the Middle East," he added. In regard to Iraq, he said that China extended assistance by reducing Iraqi debt obligations to China and forging trade agreements between Iraqi and Chinese companies.

With respect to Iran, FM Yang said the Iranian file should be solved through "political diplomatic channels which help stabilize the situation in the region."

FM SAUD: CHINA NEEDS TO MORE ACTIVELY COUNTER
IRANIAN NUKES

¶9. (C) Deputy Foreign Minister Dr. Prince Torki told visiting NEA A/S Feltman on January 26 (ref C) that FM Saud had pressed the Chinese Foreign Minister hard on the need to be more active in working with the rest of the international community and the UN Security Council to counter the threat of Iran developing a nuclear weapon. FM Saud told FM Yang that Saudi Arabia was convinced Iran intended to develop a nuclear weapon, despite its assurances, and that only concerted international action could stop that. While no explicit bargain was discussed, Dep FM Torki explained that Saudi Arabia understood China was concerned about having access to energy supplies, which could be cut off by Iran, and wanted to attract more trade and investment. Saudi Arabia was willing to provide assurances on those scores to China, but only in exchange for tangible Chinese actions to restrain Iran's drive for nuclear weapons.

COMMENT:

¶9. (C) Since King Abdullah's historic visit to Beijing in January 2006, the Saudi-Chinese relationship has focused predominantly on energy and trade. However, the relationship may be showing signs of political evolution. While the Chinese would likely prefer to stay away from political controversy, their economic power and permanent seat on the UN Security Council has made it more and more difficult for them to avoid politics altogether.

¶10. (C) COMMENT CONTINUED: The incentives for the Saudis to

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try and leverage their economic relationship with China for political gain with respect to sensitive regional issues, such as Iran and the Israeli-Palestinian conflict, are significant and growing. After patiently focusing on building the economic relationship since 2006, FM Saud's public and private prodding of FM Yang indicates the Saudis are ready to try and cash in some political chips. End comment.

SMITH